REPORT OF EXAMINATION
OF THE

CRUSADER INSURANCE COMPANY

AS OF
DECEMBER 31, 2004

Participating State
and Zone:

California

Filed May 10, 2006

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Los Angeles, California
February 13, 2006

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Gary L. Smith
Secretary, Zone IV-Western
Director of Insurance
Department of Insurance, State of Idaho
Boise, Idaho

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Director and Commissioners:

Pursuant to your instructions, an examination was made of the

CRUSADER INSURANCE COMPANY

(hereinafter also referred to as the Company) at the statutory home office and primary location of its books and records, 23251 Mulholland Drive, Woodland Hills, California 91364.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2001. This examination covers the period from January 1, 2002 through December 31, 2004. The examination was made pursuant to the National Association of Insurance Commissioners' (NAIC) plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; and sales and advertising.

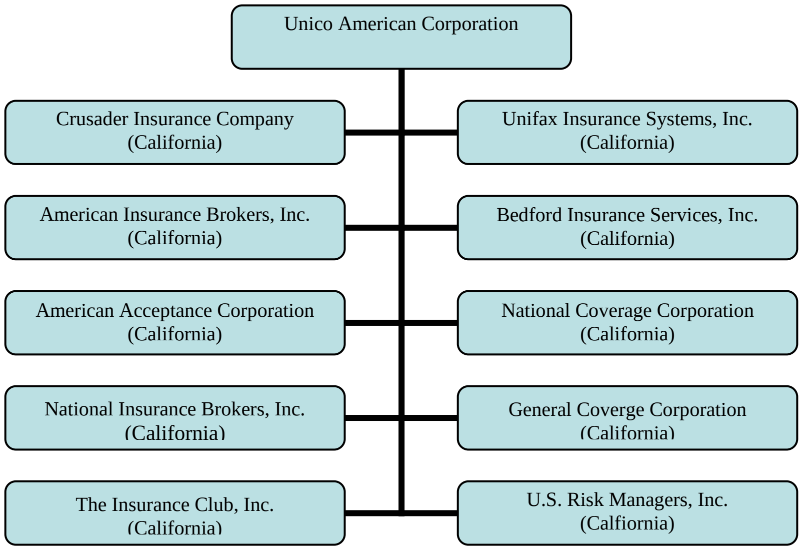
COMPANY HISTORY

The Company is authorized to issue 5.5 million common shares with a par value of $107.15 and 5 million preferred shares with a par value of $1.00. The Company has 28,000 common shares outstanding with a total value of $3,000,200 as of December 31, 2004.

The Company's parent, Unico American Corporation (UAC), contributed cash of $1.5 million and $3 million in 2002 and 2003, respectively.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Unico American Corporation (UAC). UAC is an insurance holding company that underwrites property and casualty insurance through its insurance company subsidiary. The following organizational chart reflects the Company's position within the holding company system:



(*) All ownership is 100%.

Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2004 follows:

<u>Directors</u>

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Erwin Cheldin Pacific Palisades, California	Chairman of the Board and President Unico American Corporation
Cary L. Cheldin Ojai, California	Executive Vice President Unico American Corporation
Lester A. Aaron Calabasas, California	Treasurer and Chief Financial Officer Unico American Corporation

Principal Officers

Name	Title
Cary L. Cheldin	President
George C. Gilpatrick	Vice President and Secretary
Lester A. Aaron	Treasurer
J. John Dinapoli	Vice President

Management Agreements

General Agency Agreement: The Company has a General Agency Agreement with Unifax Insurance Systems, Inc. (Unifax), an affiliate. Unifax provides production, underwriting, accounting, data processing, administration, and other management services. The Company paid Unifax a commission of 27.5% of direct premiums written. Payments made to Unifax for the years 2002, 2003 and 2004 were $13,254,628, $17,559,756, and $18,892,426, respectively.

Tax Sharing Agreement: The Company and its affiliates are part of a consolidated federal income tax agreement with its ultimate parent, Unico American Corporation (UAC). Allocation of taxes is based upon separate return calculations. Intercompany tax allocations are settled at the time the consolidated tax return is filed.

During the course of the examination it was noted that the Company reimburses UAC for operating expenses paid by UAC on its behalf without an established agreement. It is recommended that the Company execute an agreement with UAC to ensure the proper recording and settlement of the operating expenses. It is also recommended that the Company submit the agreement for review pursuant to California Insurance Code Section 1215.5.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was licensed to transact multiple lines of property and casualty insurance. The following is a listing of the states in which the Company is licensed:

Arizona	Nevada
California	Ohio
Idaho	Oregon
Montana	Washington

In 2004, the Company wrote $68.8 million of direct premiums all of which were written in the State of California. The Company is also authorized to write on a surplus line basis in Kentucky and Texas. In 2005, the Company voluntarily withdrew its licenses from Idaho, Ohio, and Texas.

The principal line of business written is commercial multiple peril, which amounted to approximately 98% of the Company's total premiums written. All of the Company's business is written through its affiliated general agent, Unifax Insurance Systems, Inc.

LOSS EXPERIENCE

The Company reported operating and net losses in all years under examination except one as follows:

Year	Net Operating Gain or (Loss)	Net Income Or (Loss)
2001	$ (23,291,074)	$ (12,110,967)
2002	(12,646,517)	(5,331,777)
2003	(8,351,830)	(3,106,103)
2004	1,001,930	3,343,858

The Company has maintained its reported surplus position since the previous examination primarily through capital contributions. Capital contributions for the years 2002 and 2003 were $1.5 million and $3 million, respectively. The net losses are largely a result of losses from liquor and premises liability coverages, which rendered much of the Company's business outside of California unprofitable. In an effort to improve underwriting results, the Company placed moratoriums on writing all non-California business in July 2003.

REINSURANCE

Assumed

The Company has no reinsurance assumed.

Ceded

The following is a summary of the principal ceded reinsurance treaties inforce as of December 31, 2004:

Type of Contract	Authorized and Unauthorized Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
1st Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 60% Hannover Ruckversicherungs-AKtiengesellschaft – 30%	$250,000 each loss occurrence	90% of $750,000 each loss occurrence
2nd Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 60% Hannover Ruckversicherungs-AKtiengesellschaft – 30%	$1 million each loss occurrence	90% of $1 million each loss occurrence
Property Clash Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 60% Hannover Ruckversicherungs-AKtiengesellschaft – 15% Mapfre Reinsurance Corporation – 10%	$2 million each loss occurrence	85% of $5 million each loss occurrence
Casualty Clash Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 60% Chubb Re, Inc. (for and on behalf of Federal Insurance Company) – 40%	$2 million each loss occurrence	$5 million each loss occur Limits

Type of Contract	Authorized and Unauthorized Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
1st Catastrophe Excess of Loss	Arch Reinsurance Company – 40% Platinum Underwriters Reinsurance, Inc. – 25% Endurance Specialty Insurance Ltd. – 25% Hannover Re (Bermuda) Ltd. – 4% Alea North America (on behalf of Alea North American Insurance Company) – 3% Underwriters at Lloyd's – 3%	$1 million each loss occurrence	$3.5 million each loss occurrence
2nd Catastrophe Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 25% Endurance Specialty Insurance Ltd. – 25% XL Re Ltd. – 20% Arch Reinsurance Company – 10% Underwriters at Lloyd's – 10% Alea North America (on behalf of Alea North American Insurance Company) – 6% Hannover Re (Bermuda) Ltd. – 4%	$4.5 million each loss occurrence	$6.5 million each loss occurrence
3rd Catastrophe Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 25% Endurance Specialty Insurance Ltd. – 25% Hannover Re (Bermuda) Ltd. – 20% Alea North America (on behalf of Alea North American Insurance Company) – 10% Arch Reinsurance Company – 10% Underwriters at Lloyd's – 10%	$11 million each loss occurrence	$5 million each loss occurrence

As of December 31, 2004, reinsurance recoverables for all ceded reinsurance totaled $17.3 million or 59% of surplus as regards policyholders. All of the ceded reinsurance recoverables were from nonaffiliated admitted reinsurers.

ACCOUNTS AND RECORDS

The examination of the unearned premiums reserve determined that the Company did not properly record advance premiums in the amount of $634,733, in accordance with the Statements of Statutory Accounting Principles (SSAP) Number 53 but included the advance premiums in the unearned premium reserve. There was no surplus effect. SSAP Number 53, paragraph 13 states that "advance premiums are reported as a liability in the statutory financial statements and not considered income until due. Such amounts are not included in written premium or the unearned premium reserve." It is recommended that the Company record advance premiums in accordance with SSAP Number 53.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 128,347,920	$	$ 128,347,920	
Cash and short-term investments	1,539,511		1,539,511	
Investment income due and accrued	1,042,351		1,042,351	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	2,285,589		2,285,589	
Reinsurance:				
Amounts recoverable from reinsurers	18,512		18,512	
Net deferred tax asset	2,372,076		2,372,076	
Guaranty funds receivable or on deposit	15,072		15,072	
Aggregate write-ins for other than invested assets	178,828	3,737	175,091	
Total assets	$ 135,799,859	$ 3,737	$ 135,796,122	

Liabilities, Surplus and Other Funds			
Losses		$ 64,177,189	(1)
Loss adjustment expenses		3,172,798	(1)
Other expenses		21,527	
Taxes, licenses and fees		104,795	
Current federal and foreign income taxes		301,441	
Unearned premiums		35,567,579	
Ceded reinsurance premiums payable		2,970,462	
Aggregate write-ins for liabilities		43,988	
Total liabilities		106,359,779	
Common capital stock	$ 3,000,200		
Gross paid-in and contributed surplus	8,100,000		
Unassigned funds (surplus)	18,336,143		
Surplus as regards policyholders		29,436,343	
Total liabilities, surplus and other funds		$ 135,796,122	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income		
Premiums earned		$ 50,106,568
Deductions:		
Losses incurred	$ 26,300,725	
Loss expense incurred	8,030,012	
Other underwriting expenses incurred	14,773,901	
Total underwriting deductions		49,104,638
Net underwriting gain		1,001,930
Investment Income		
Net investment income earned	$ 4,204,572	
Net investment gain		4,204,572
Other Income		
Aggregate write-ins for miscellaneous income	$ 103,807	
Total other income		103,807
Net income before dividends to policyholders and before federal income taxes		5,310,309
Federal income taxes incurred		1,966,451
Net income		$ 3,343,858

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003		$ 26,103,440
Net income	$ 3,343,858	
Change in net deferred income tax	(10,602)	
Change in nonadmitted assets	(353)	
Change in surplus as regards policyholders for the year		3,332,903
Surplus as regards policyholders, December 31, 2004		$ 29,436,343

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2004

Surplus as regards policyholders, December 31, 2001, per Examination			$ 27,519,538
	Gain in Surplus	Loss in Surplus	
Net loss	$	$ 5,094,022	
Net unrealized capital gains	163,954		
Change in net deferred income tax	376,835		
Change in nonadmitted assets	1,970,038		
Surplus adjustments: paid-in	4,500,000		
Totals	$ 7,010,827	$ 5,094,022	
Net increase in surplus as regards policyholders for the examination			1,916,805
Surplus as regards policyholders, December 31, 2004 per Examination			$ 29,436,343

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company's reserves were evaluated by a Casualty Actuary from the California Department of Insurance (CDI). Based on the analysis by the Casualty Actuary from the CDI, the Company's December 31, 2004 reserves for losses and loss adjustment expenses appear reasonable and have been accepted for purposes of this examination report.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreements (Page 4): It is recommended that the Company establish an agreement with Unico American Corporation (UAC) to ensure the proper recording and settlement of expenses that UAC pays on behalf of the Company and that the agreement be submitted to the California Department of Insurance pursuant to California Insurance Code (CIC) Section 1215.5.

Accounts and Records (Page 7): It is recommended that the Company record advance premiums in accordance with SSAP Number 53

Previous Report of Examination

Corporate Records (Page 5): It was recommended that the Company implement procedures in its board meetings to ensure compliance with CIC Section 735. The Company is now in compliance with CIC Section 735.

Accounts and Records - Information System Controls (Page 7): It was recommended that the Company review its information systems and make appropriate changes to strengthen internal controls. The Company provided documentation that the appropriate changes were made.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

______/S/________________
Laura Clements, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California